

Whitehall District Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Whitehall District Schools

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Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

The discussion and analysis of Whitehall District Schools' financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this Management Discussion and Analysis is to provide, in simple terms, a look at the District's past performance and current position. Readers may also review the financial statements, and notes to the financial statements to enhance their understanding of the district's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is typically presented in the MD&A.

Overview of the Financial Statements

This annual report consists of five parts: (1) management's discussion and analysis (this section), (2) the independent auditors' report, (3) the basic financial statements, (4) required supplementary information, and (5) combining financial statements. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

District-Wide Financial Statements

The district-wide financial statements were implemented in 2002-2003. These statements are full accrual basis statements that provide information about the District's **overall** financial status. They are used to help determine whether or not the District is in a better or worse financial position as a result of the year's activities. The **Statement of Net Assets** reports all of the District's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the **Statement of Activities**, regardless of when cash is received or paid.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

The two district-wide statements report the district's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the district's financial health or position.

- Over time, increases or decreases in net assets are an indicator of whether the District's financial position is improving or deteriorating.
- In order to accurately assess the District's overall health, the reader should also consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided, and the condition of the District's buildings.

In district-wide statements, the District's activities are classified as *governmental activities*. Governmental activities include most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, while reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the *General Fund*. Additional activities are reported in their relevant funds including: *Special Revenue Funds* for *Food Service*, *Athletic* and *Community Service* activities, *Debt Service Funds*, *Capital Project Funds*, and *Fiduciary Funds*.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Financial Analysis of the District as a Whole

The net assets of the district at June 30, 2005 and June 30, 2006 amounted to approximately \$2.4 million and \$3 million respectively. Figure A-1 shows a condensed breakdown of the net assets.

Figure A-1		
Comparative Condensed Statement of Net Assets		
	Governmental Activities 6-30-05	Governmental Activities 6-30-06
Current assets	\$ 9,255,322	\$ 8,644,752
Capital assets	35,134,270	34,680,841
Other non-current assets	370,496	610,319
Total assets	44,760,088	43,935,912
Current liabilities	6,512,142	5,502,743
Non-current liabilities	35,878,762	35,342,676
Total liabilities	42,390,904	40,845,419
Net assets		
Invested in capital assets, net of related debt	(731,361)	(616,378)
Restricted for debt service	692,759	553,162
Unrestricted	2,407,786	3,153,709
Total net assets	\$ 2,369,184	\$ 3,090,493

The District uses its capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining net assets represent resources that are either restricted for debt service or are unrestricted on how they may be used.

The District is in the fifth year of a bond issue passed in 2001. The majority of the construction was completed during the 2003-2005 fiscal years. The project has been effectively completed, with only minor funds remaining to be allocated.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

The net assets of the District increased by \$721,310 during the 2005-06 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was approximately \$24 million. However, the amount that the District's taxpayers ultimately financed for these activities was only \$18.2 million because \$2.3 million of the cost was paid for by those who benefited from the programs, and \$3.5 million was paid for by other governments and organizations who subsidized certain programs with grants and contributions. The remaining "public benefit" portion was paid for with property taxes, state pupil foundation aid, investment earnings, and other miscellaneous revenues.

Figure A-2
Comparative Statement of Activities

	Governmental Activities 6-30-05	Governmental Activities 6-30-06
Revenues		
Program Revenues		
Charges for services	\$ 2,053,796	\$ 2,339,434
Operating grants and contributions	3,368,028	3,514,456
General revenues		
Property taxes	5,362,005	5,705,041
Unrestricted grants	12,350,544	12,843,941
Investment earnings	171,250	142,081
Other	15,329	76,519
Total revenues	23,320,952	24,621,472
Expenses		
Instruction	10,777,333	10,672,839
Support services	5,492,109	6,163,535
Community services	3,504,376	3,691,320
Food services	746,194	713,751
Athletics	379,264	406,740
Interest on long-term debt	2,137,038	1,609,178
Unallocated depreciation and amortization	870,703	642,799
Total expenses	23,907,017	23,900,162
Decrease in net assets	(586,065)	721,310
Net Assets at beginning of year	2,955,249	2,369,183
Net Assets at end of year	\$ 2,369,184	\$ 3,090,493

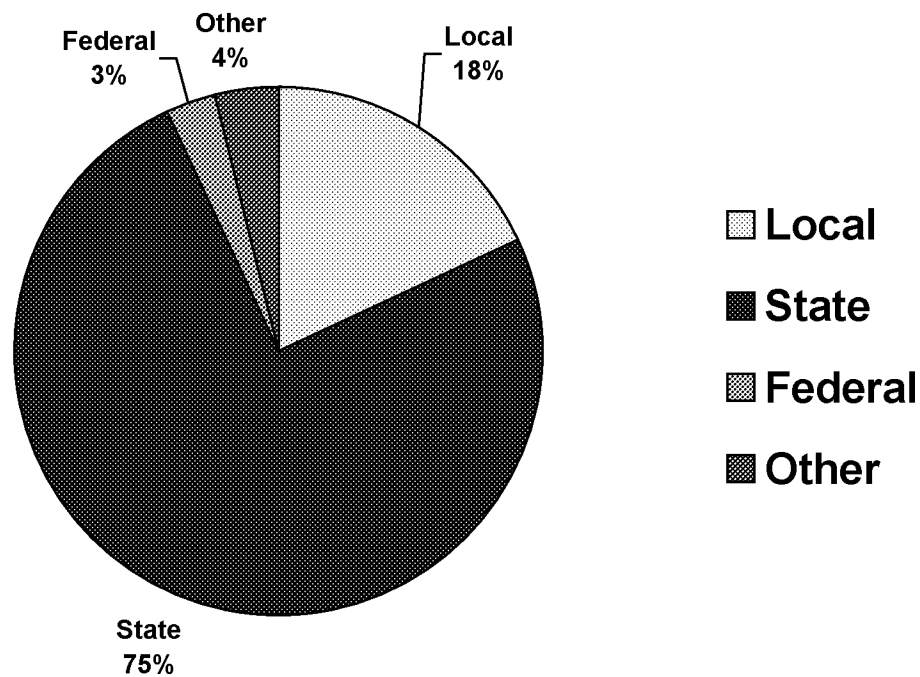
Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

The majority of the District's revenues (75%) are received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. The chart below depicts the breakdown of the sources of revenue for the District.

Figure A-3
Sources of Revenue for Fiscal Year 2005-2006



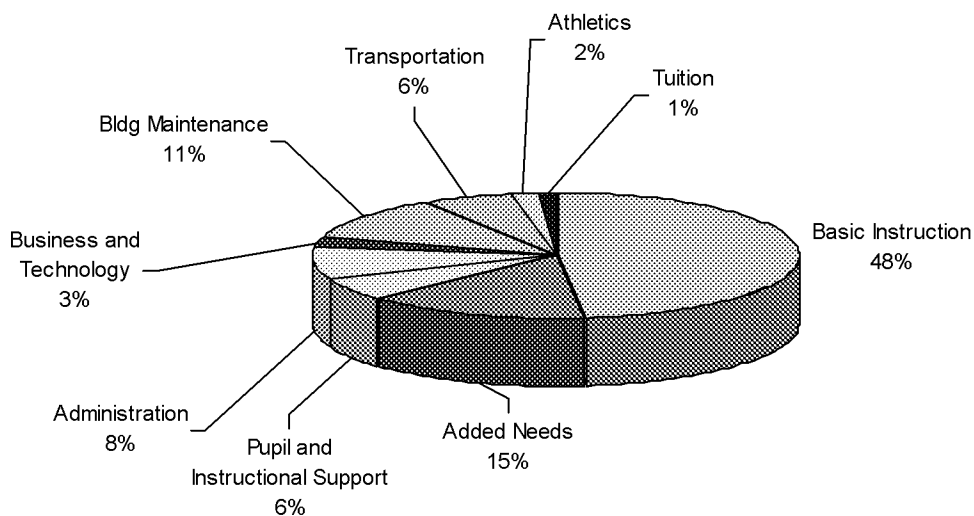
Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

As the chart below indicates, 69% of the District's resources are spent on instruction and pupil and instructional support services. Another 8% is spent on administrative services necessary to efficiently operate the District, while 11% is spent for building operation and maintenance, including utilities and custodial services and 6% is spent on transportation. The final 6% is spent on other support services.

Figure A-4
Departmental Expenditures as Percentage of Total Budget



Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

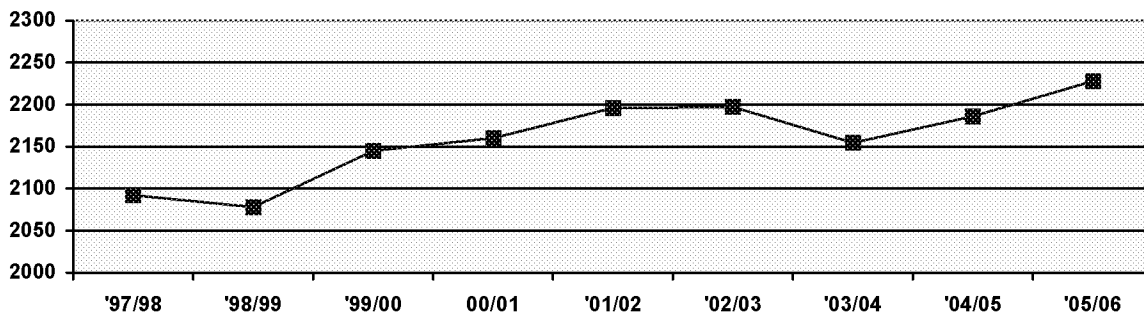
Financial Analysis of the District's Funds

The stable financial performance of the District as a whole is also reflected in its governmental funds. The combined governmental funds' equity increased during the 2005-06 fiscal year, resulting in a total fund equity of approximately \$4.6 million at year end. The General Fund portion of the fund balance increased to \$3,003,898. The primary reasons for the increasing fund balance are as follows:

Factors Increasing Fund Equity

Increased enrollment – The District's pupil enrollment for state aid funding purposes increased by 42 memberships. The following chart depicts the enrollment changes experienced by the district over the past nine years. The student increase resulted in an additional \$213,000 in revenue to the district.

Figure A-5
Enrollment History: 1998 through 2006



State Aid Act – For the first time in three years, schools were given a moderate increase of \$175 per pupil in the foundation grant. This increase provided the district with approximately \$380,000 of additional revenue for the 2005-2006 school year.

Staffing – One counseling position was reduced for the 2005-2006 school year through attrition and a psychologist position remained unfilled because the district was unable to locate a qualified replacement.

Factors Decreasing Fund Equity

Benefit Cost Increases – The District's cost for insurance premiums increased over the previous year by 14%. Retirement costs increased from 14.87% to 16.34%.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District periodically amends its budget during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$716,281 change in the total General Fund revenue budget from the beginning to the end of the year and \$1,019,582 difference in actual revenue from beginning budget. There were significant changes in funding sources as follows:

- The **local source** revenue was greater than the original budget by \$241,519. The increase was related to higher than anticipated State Equalized Valuations, increased interest income due to a change in banking relationships and increased income from the special education transportation consortium.
- The **state source** revenue was greater than the original budget by \$495,434. This increase was made as a result of the gain of 42 students combined with student foundation increase of \$175 per pupil. Additionally, the district gained section 24 categorical funding related to operation of the county juvenile detention facility.
- The **federal source** revenue was greater than the original budget by \$192,847. The district began operation of the county juvenile detention facility which resulted in additional Title I funding. Additionally, we began receiving IDEA funds directly rather than passing them through special education consortium programs.
- The **transfers from other governmental units** was greater than the original budget by \$93,037. This increase was a result of higher than anticipated Act 18 revenues.

Expenditures – There was a \$15,754 decrease in the total General Fund expenditures from the original budget to the actual year-end expenditures. The significant changes by functional category are as follows:

- The **instructional services** expenses were greater than the original budget by \$60,386. The increase in instructional services was primarily related to the addition of the juvenile detention center program to district operations.
- The **supporting services** expenses were greater than the original budget by \$73,189. As with the instructional services budget, increases in supporting services was primarily related to the addition of the juvenile detention center program to district operations.
- The **transfers to other governmental units** expenses were less than the original budget by \$149,329. Fewer children were enrolled in specialized programming in other districts than had been previously. Additionally, special education transportation that the district had previously provided on behalf of another district was provided by the Intermediate School District.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Capital Assets and Debt Administration

Capital Assets – A summary of the District’s capital assets at year-end is outlined in Figure A-6.

Figure A-6		
Summary of Capital Assets (Net of Depreciation)		
	<u>June 30, 2005</u>	<u>June 30, 2006</u>
Land	\$ 762,882	\$ 762,882
Construction in Progress	128,561	132,118
Building and improvements	33,562,785	33,043,745
Furniture and equipment	494,297	462,017
Vehicles	185,745	280,079
Total	<u>\$ 35,134,270</u>	<u>\$ 34,680,841</u>

The District purchased two buses and a van which accounted for the majority of capital asset acquisitions during the year.

Debt Administration – A summary of the District’s indebtedness is outlined in figure A-7.

Figure A-7		
Summary of Indebtedness		
	<u>June 30, 2005</u>	<u>June 30, 2006</u>
1992 Bond Issue	\$ 873,115	\$ 660,548
1997 Refunding Bond Issue	7,435,000	7,360,000
2001 Bond Issue	27,662,480	11,032,456
2005 Refunding Bond Issue	-	16,135,326
1998 Durant bond issue	155,388	141,677
School Bond Loan Fund	363,347	709,324
Capital lease & other loans	168,326	108,889
Early retirement incentives	150,000	-
Sick leave pay	238,413	243,254
Total	<u>\$ 37,046,069</u>	<u>\$36,391,474</u>

The District had a partial refunding of the 2001 Bond Issue during the year. All other debt reductions are a result of the normal payment schedules.

Under State statute, the District is legally restricted from incurring long-term bonded debt in excess of 15% of the assessed value of taxable property within the school district. At June 30, 2006 the District’s net bonded debt of \$141,677 was well below the legal limit of approximately \$55 million.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

General Fund

Analysis of Transactions and Fund Balance

In 2002-2003, the district began making budget reductions in response to executive order cuts from the State of Michigan. Further reductions were made in 2003-2004 and 2004-2005 in an attempt to operate more efficiently as it became clear that the financial shortfalls at the state level would result in small or no increases in the per pupil foundation. As a result of early cuts and unexpected increases in enrollment, the district is in sound financial condition.

The General fund balance increased by \$561,000 in the 2005-2006 year even though further cuts had not been planned for the year. The primary reason for the increased fund balance was the addition of 42 students combined with the \$175 increase in the per pupil foundation. Additional reasons for the increase resulted from savings due to two staff positions that were left unfilled for the year, higher than anticipated Act 18 and special education transportation revenue, and lower than expected centralized special education costs.

Additional impact on the budget was seen on both the revenue and expenditure side due to the addition of the County Juvenile Detention Center program to our district. As of the 2005-2006 school year, the district provides instruction for the children who are detained at the center.

Capital Project Fund

Analysis of Transactions and Fund Balance

In 2001, a \$29,500,000 bond issue was passed by the citizens of the District, with the purpose of building a new high school, and renovating Ealy Elementary, Whitehall Middle School, and the Administration and Community Services Building.

During the 2005-2006 school year, approximately \$11,000 in interest was earned and credited to this fund. No additional revenue was credited.

The majority of all construction, including completion of the new high school, and renovations to the middle school and community services building was concluded during the 2005-2006 school year. Expenditures for the 2005-2006 school year were just under \$100,000 which completed the major projects. Approximately \$240,000 remains in fund balance to complete identified projects including a public address system for Ealy Elementary, restoration of tennis courts, and Community Services signage and roof replacement.

Whitehall District Schools

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Community Education Fund

Analysis of Transactions and Fund Balance

Whitehall District Schools serves as the fiscal agent for White Lake Area Community Education, a consortium of five districts established to provide pre-k through adult services to our communities.

Revenues increased from \$3.5 million to \$3.65 million, and expenditures increased from \$3.5 million to \$3.7 million. Efficiencies of operating 5 districts through one consortium, including reduced management costs, allowed the fund balance to remain fairly stable at \$411,994 down slightly from \$461,221 despite the loss of a large Even Start grant.

Food Service Fund

Analysis of Transactions and Fund Balance

The food service program changed significantly during the 2004-2005 school year. When the new high school was opened it included a closed campus philosophy, meaning that all students would bring or be served lunch in the cafeteria. Opening the new facility, as well as operational changes to the program resulted lower than optimal fund balance.

The 2005-2006 year was spent bringing the operations of the program back into line and eliminating the operating deficit.

Currently Known Facts and Conditions Affecting the 2006/07 School Year

In August of 2006, teaching and support staff contracts were settled through the 2007-2008 school year.

The State of Michigan notified districts in the spring that the per pupil foundation was likely to increase by approximately \$225. In fact, the foundation only increased \$210; however, additional dollars were provided to increase the base foundation so the increase to Whitehall District Schools was ultimately \$233 per pupil. We were aware that the retirement rate would be increasing from 16.34 to 17.74 percent. The cost of insurance for the majority of our staff was not estimated to increase for the 2006-2007 school year. Administrative staff changed insurance plans which is estimated to save the district dollars over a three year period. We budgeted for a stable enrollment in 2006-2007 which has proven to be accurate.

The combination of each of these financial issues allowed the board to feel comfortable that sufficient reductions had been made in previous years to allow the district to operate in a financially responsible manner without further budget reductions. In fact, staffing additions were built into the budget.

Whitehall District Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

Requests for Information

This financial report is designed to provide the citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Ms. Christine Annese, Assistant Superintendent for Finance and Personnel, Whitehall District Schools, 541 E. Slocum, Whitehall, MI 49461, telephone number (231) 893-1010.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 26, 2006

Board of Education
Whitehall District Schools
Whitehall, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Whitehall District Schools (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Whitehall District Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Whitehall District Schools, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 26, 2006, on our consideration of Whitehall District Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
October 26, 2006
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - xii and 26 - 27 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Whitehall District Schools' basic financial statements. The combining nonmajor funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLLC

Whitehall District Schools
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,148,091
Investments	1,609,899
Receivables	24,007
Due from other governmental units	3,857,086
Inventories	5,669
Total current assets	8,644,752
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	895,000
Depreciable	33,785,841
Bond issuance costs, net	397,142
Note and interest receivable	213,177
Total noncurrent assets	35,291,160
Total assets	43,935,912
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,600,000
Accounts payable and accrued liabilities	2,410,735
Due to other governmental units	157,835
Deferred revenue	285,375
Bonds and other obligations, due within one year	1,048,798
Total current liabilities	5,502,743
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	35,342,676
Total liabilities	40,845,419
NET ASSETS	
Invested in capital assets, net of related debt	(616,378)
Restricted for debt service	553,162
Unrestricted	3,153,709
Total net assets	\$ 3,090,493

The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
				Governmental activities
Governmental activities				
Instruction	\$ 10,672,839	\$ 471,785	\$ 957,369	\$ (9,243,685)
Support services	6,163,535	335,174	285,087	(5,543,274)
Community services	3,691,320	1,103,059	1,947,109	(641,152)
Food services	713,751	366,576	324,891	(22,284)
Athletics	406,740	62,840	-	(343,900)
Interest on long-term debt	1,609,178	-	-	(1,609,178)
Unallocated depreciation and amortization	642,799	-	-	(642,799)
Total governmental activities	<u>\$ 23,900,162</u>	<u>\$ 2,339,434</u>	<u>\$ 3,514,456</u>	<u>(18,046,272)</u>
General revenues				
Property taxes levied for				
General purposes				2,920,727
Debt service				2,784,314
Grants and contributions not restricted to specific programs				12,843,941
Investment earnings				142,081
Miscellaneous				<u>76,519</u>
Total general revenues				<u>18,767,582</u>
Change in net assets				721,310
Net Assets at July 1, 2005				<u>2,369,183</u>
Net Assets at June 30, 2006				<u>\$ 3,090,493</u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	2001 Capital Projects Fund	Community Education Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 1,896,913	\$ 43,923	\$ 351,837	\$ 855,418	\$ 3,148,091
Investments	1,410,679	199,220	-	-	1,609,899
Receivables	24,007	-	-	#REF!	#REF!
Due from other governmental units	3,429,016	-	423,466	4,604	3,857,086
Due from other funds	220,318	-	-	73,466	293,784
Inventories	-	-	-	5,669	5,669
Total assets	<u>\$ 6,980,933</u>	<u>\$ 243,143</u>	<u>\$ 775,303</u>	<u>\$ #REF!</u>	<u>\$ #REF!</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
State aid loan	\$ 1,600,000	\$ -	\$ -	\$ -	\$ 1,600,000
Accounts payable	36,823	-	20,044	363	57,230
Accrued liabilities	1,872,869	-	79,878	10,258	1,963,005
Due to other governmental units	153,905	-	3,930	-	157,835
Due to other funds	73,466	156	217,451	2,711	293,784
Deferred revenue	239,972	-	42,006	3,397	285,375
Total liabilities	<u>3,977,035</u>	<u>156</u>	<u>363,309</u>	<u>16,729</u>	<u>4,357,229</u>
Fund balances					
Reserved					
Inventories	-	-	-	5,669	5,669
Debt service	-	-	-	872,162	872,162
Capital projects	-	242,987	-	-	242,987
Unreserved					
Undesignated					
General Fund	3,003,898	-	-	-	3,003,898
Community Education Fund	-	-	411,994	-	411,994
School service	-	-	-	44,597	44,597
Total fund balances	<u>3,003,898</u>	<u>242,987</u>	<u>411,994</u>	<u>922,428</u>	<u>4,581,307</u>
Total liabilities and fund balances	<u>\$ 6,980,933</u>	<u>\$ 243,143</u>	<u>\$ 775,303</u>	<u>\$ 939,157</u>	<u>\$ 8,938,536</u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balance—governmental funds	\$	4,581,307
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 42,267,424	
Accumulated depreciation	<u>(7,586,583)</u>	34,680,841

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	449,317	
Accumulated amortization	<u>(52,175)</u>	397,142

Other long-term note and interest receivable in governmental activities is not
reported in the governmental funds.

213,177

Accrued interest in governmental activities is not reported in the governmental funds.

(390,500)

Long-term obligations in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds and notes payable	(36,148,221)	
Compensated absences	<u>(243,253)</u>	<u>(36,391,474)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>3,090,493</u></u>
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The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	2001 Capital Projects Fund	Community Education Fund	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 2,926,360	\$ -	\$ -	\$ 2,784,314	\$ 5,710,674
Investment earnings	81,108	11,105	14,389	35,479	142,081
Fees and charges	241,487	-	1,138,410	429,430	1,809,327
Other	62,719	-	-	4,949	67,668
Total local sources	3,311,674	11,105	1,152,799	3,254,172	7,729,750
State sources	13,046,466	-	707,718	44,359	13,798,543
Federal sources	570,374	-	1,786,358	315,543	2,672,275
Total revenues	16,928,514	11,105	3,646,875	3,614,074	24,200,568
EXPENDITURES					
Instruction	10,600,029	-	-	-	10,600,029
Support services	5,709,371	-	624,694	-	6,334,065
Community services	-	-	3,071,408	-	3,071,408
Food services	-	-	-	713,751	713,751
Athletics	-	-	-	406,740	406,740
Debt service					
Principal	74,218	-	-	1,007,567	1,081,785
Interest and other charges	7,667	-	-	1,571,926	1,579,593
Bond issuance costs	-	-	-	199,517	199,517
Advance refunding escrow	-	-	-	382,000	382,000
Capital projects	-	98,677	-	-	98,677
Total expenditures	16,391,285	98,677	3,696,102	4,281,501	24,467,565
Excess (deficiency) of revenues over (under) expenditures	537,229	(87,572)	(49,227)	(667,427)	(266,997)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	565,416	-	-	-	565,416
Loan proceeds	-	-	-	321,103	321,103
Proceeds of refunding bonds	-	-	-	16,955,000	16,955,000
Premium proceeds of refunding bonds	-	-	-	80,317	80,317
Transfers in	-	-	-	337,197	337,197
Transfers out	(337,197)	-	-	-	(337,197)
Payment to refunded bond escrow agent	-	-	-	(16,835,800)	(16,835,800)
Transfers to other governmental units and other transactions	(204,231)	-	-	-	(204,231)
Total other financing sources (uses)	23,988	-	-	857,817	881,805
Net change in fund balances	561,217	(87,572)	(49,227)	190,390	614,808
Fund balances at July 1, 2005	2,442,681	330,559	461,221	732,038	3,966,499
Fund balances at June 30, 2006	<u>\$ 3,003,898</u>	<u>\$ 242,987</u>	<u>\$ 411,994</u>	<u>\$ 922,428</u>	<u>\$ 4,581,307</u>

The accompanying notes are an integral part of this statement.

Whitehall District Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	614,808
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (642,799)	
Capital outlay and bond issuance costs	<u>371,404</u>	(271,395)

Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets	(13,712)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(16,520,494)
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Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	(127,881)
--	-----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets.	17,029,930
--	------------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	14,894
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(4,840)</u>
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Change in net assets of governmental activities	\$ <u><u>721,310</u></u>
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The accompanying notes are an integral part of this statement.

Whitehall District Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	Agency funds
ASSETS	
Cash and cash equivalents	\$ 261,583
LIABILITIES	
Accounts payable	\$ 13,252
Deposits held for others	248,331
Total liabilities	\$ 261,583

The accompanying notes are an integral part of this statement.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Whitehall District Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Community Education Fund* accounts for community education and employment development programs.
- The *2001 Capital Projects Fund* accounts for the use of the proceeds from the 2001 School Building and Site Bonds. The bonds were approved for issuance on September 22, 2001 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18
Debt service fund—Homestead and non-homestead	7

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventories are valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	25-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets in District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, Community Education Fund, special revenue, debt service and capital project funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures in the General Fund exceeded appropriations in the basic programs by \$68,579 and business function by \$74,731. Expenditures in the Community Education Fund exceeded appropriations in adult education and support by \$36,824, early childhood by \$39,549 and work force development by \$52,802. These over expenditures were funded by greater than anticipated revenue in the each fund, respectively.

School Bond Construction Compliance

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2001 Capital Projects Fund from the inception of the fund through June 30, 2006.

	<u>2001 Capital Projects Fund</u>
Revenue and bond proceeds	\$31,289,695
Expenditures	31,046,708

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard & Poor's Rating</u>	<u>Percent</u>
<i>General Fund</i>				
Guaranteed Investment Contract (GIC)	\$ 1,410,679	21	A1+	87.63%
Fifth Third Institutional Government Money Market Fund	<u>199,220</u>	<u>36</u>	AAAm	<u>12.37</u>
Total fair value	\$ <u>1,609,899</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>23</u>		

Interest rate risk. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$3,615,627 of the School District's bank balance of \$3,715,627 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the state aid anticipation note disclosed in Note G. The Investment Agreement, dated August 2005, by and among J.P. Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider. The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103 percent of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity. The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 4.09 percent (simple interest actual days elapsed over a 365-day year). The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 762,882	\$ -	\$ -	\$ 762,882
Construction in progress	<u>128,561</u>	<u>3,557</u>	<u>-</u>	<u>132,118</u>
Total capital assets, not being depreciated	891,443	3,557	-	895,000
Capital assets, being depreciated:				
Buildings and improvements	38,822,500	-	-	38,822,500
Office furniture and equipment	1,225,545	30,972	-	1,256,517
Vehicles and equipment	<u>1,156,049</u>	<u>137,358</u>	<u>-</u>	<u>1,293,407</u>
Total capital assets, being depreciated	41,204,094	168,330	-	41,372,424
Less accumulated depreciation:				
Buildings and improvements	5,259,715	519,040	-	5,778,755
Office furniture and equipment	731,248	63,252	-	794,500
Vehicles and equipment	<u>970,304</u>	<u>43,024</u>	<u>-</u>	<u>1,013,328</u>
Total accumulated depreciation	<u>6,961,267</u>	<u>625,316</u>	<u>-</u>	<u>7,586,583</u>
Total capital assets, being depreciated, net	<u>34,242,827</u>	<u>(456,986)</u>	<u>-</u>	<u>33,785,841</u>
Capital assets, net	<u>\$ 35,134,270</u>	<u>\$ (453,429)</u>	<u>\$ -</u>	<u>\$ 34,680,841</u>

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 249,800	\$ 199,517	\$ -	\$ 449,317
Less accumulated amortization	<u>34,692</u>	<u>17,483</u>	<u>-</u>	<u>52,175</u>
Bond issuance costs, net	<u>\$ 215,108</u>	<u>\$ 182,034</u>	<u>\$ -</u>	<u>\$ 397,142</u>

Amortization

Amortization expense has been charged as unallocated amortization.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Education Fund	\$ 217,451
General Fund	Capital Projects Fund	156
General Fund	Other governmental funds	2,711
Other governmental funds	General Fund	<u>73,466</u>
		<u>\$ 293,784</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$337,197 to the Athletics Fund to finance operations.

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
State aid anticipation note				
2004/2005 1.55% due August 2005	\$ 1,750,000	\$ -	\$ 1,750,000	\$ -
2005/2006 2.87% due August 2006	<u>-</u>	<u>1,600,000</u>	<u>-</u>	<u>1,600,000</u>
	<u>\$ 1,750,000</u>	<u>\$ 1,600,000</u>	<u>\$ 1,750,000</u>	<u>\$ 1,600,000</u>

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include the School Bond Loan Fund, School Loan Revolving Fund, capital leases, and Education Interconnection and Consortium Financing Agreement, early retirement incentives and compensated absences.

Summary of Long-term Obligations

On October 11, 2005, the School District issued \$16.955 million in General Obligation Bonds with interest rates from 3 to 5 percent to partially advance refund \$15.975 million of outstanding 2001 School Building and Site Bonds with average interest rates of 5.2 percent. The net proceeds of approximately \$16.955 million, (after payment of approximately \$200,000 in underwriting fees, insurance and other issuance costs) including \$382,000 of 2001 School Building and Site Bonds fund monies, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for principle redemption and interest of 2001 School Building and Site Bonds which were scheduled for maturity May 2014 through May 2024. As a result, the 2001 Building and Site Bonds were considered to be partially defeased.

The School District advance refunded the 2001 School Building and Site Bonds to reduce its total debt service payments over the next 18 years by over \$743 thousand and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of over \$500 thousand.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Governmental activities					
Bonds	\$ 36,125,983	\$ 16,174,517	\$ 16,970,493	\$ 35,330,007	\$ 1,029,612
Other obligations	531,673	345,977	59,437	818,213	19,186
Early retirement incentives	150,000	-	150,000	-	-
Compensated absences	238,413	8,711	3,870	243,254	-
	<u>\$ 37,046,069</u>	<u>\$ 16,529,205</u>	<u>\$ 17,183,800</u>	<u>\$ 36,391,474</u>	<u>\$ 1,048,798</u>

In the previous schedule, the additions for bonds represents transactions in connection with the refunding of the 2001 School Building & Site bonds, the additions for other obligations represents \$14,833 of accrued interest on the School Bond Loan Fund, \$321,103 of new draws on the School Loan Revolving Fund, \$10,041 of accrued interest on the School Loan Revolving Fund and an increase in compensated absences of \$8,711.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

1992 School Building and Site General Obligation Bond payable in annual installments ranging from \$215,252 to \$225,557 due May 2007 to 2009; plus interest ranging from 6.3% to 6.4% payable annually	\$ 660,548
1997 Refunding General Obligation Bond payable in annual installments ranging from \$25,000 to \$840,000 due May 2007 to 2018; plus interest ranging from 4.75% to 5% payable semi-annually	7,360,000
2001 School Building and Site General Obligation Bond payable in annual installments ranging from \$650,000 to \$2,000,000 due May 2007 to 2027; plus interest ranging from 3.5% to 5% payable semi-annually	10,925,000
Plus issuance premium	<u>107,456</u> 11,032,456
2005 Refunding General Obligation Bond payable in annual installments ranging from \$70,000 to \$1,885,000 due May 2007 to 2024; plus interest ranging from 3% to 5% payable semi-annually	16,885,000
Plus issuance premium	77,147
Less deferred amount on refinancing	<u>(826,821)</u> 16,135,326
Durant obligations payable in annual installments ranging from \$19,888 to \$93,869 including interest at 4.76% due May 2007 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>141,677</u>
Total bonded debt	35,330,007

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2033, whichever is sooner; interest payable of \$11,969 is included at rates ranging from 2.625% to 4.5%	\$ 378,180
School Loan Revolving Fund payable no later than May 2033; interest payable of \$31,394 is included at rates ranging from 4.039% to 4.685%	331,144
Capital lease obligation payable in monthly installments of \$650 including interest at 9.17%; final payment due March 2009	18,896
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,856 due March 2007 to 2013	<u>89,993</u>
Total other obligations	818,213
Compensated absences	<u>243,254</u>
	<u>\$36,391,474</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize the bonded debt, capital leases and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 1,048,798	\$ 1,915,334	\$ 2,964,132
2008	1,054,578	1,935,908	2,990,486
2009	1,055,389	2,000,144	3,055,533
2010	1,494,370	1,500,999	2,995,369
2011	1,555,156	1,435,432	2,990,588
2012-2016	8,882,823	6,037,386	14,920,209
2017-2021	9,420,000	3,878,654	13,298,654
2022-2026	9,570,000	1,870,194	11,440,194
2027	2,000,000	141,995	2,141,995
	<u>\$ 36,081,114</u>	<u>\$ 20,716,046</u>	<u>\$ 56,797,160</u>

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were approximately \$1,908,000, \$1,687,000, and \$1,455,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Whitehall District Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE K—CONTINGENCIES

Litigation – The School District is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, in the opinion of the School District’s legal counsel, the resolution of this matter will not have a material adverse effect on the financial condition of the School District.

Federal Programs – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE L—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 74.6 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers’ disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool’s total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool’s policy year may be subject to special assessment to make up the deficiency. The workers’ compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

REQUIRED SUPPLEMENTARY INFORMATION

Whitehall District Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 3,070,150	\$ 3,218,197	\$ 3,311,674	\$ 93,477
State sources	12,551,032	12,998,793	13,046,466	47,673
Federal sources	377,527	565,282	570,374	5,092
Incoming transfers and other transactions	475,639	408,357	565,416	157,059
Total revenues	16,474,348	17,190,629	17,493,930	303,301
EXPENDITURES				
Instruction				
Basic programs	8,180,723	7,998,159	8,066,738	(68,579)
Added needs	2,358,920	2,518,266	2,533,291	(15,025)
Support services				
Pupil	856,052	821,594	836,357	(14,763)
Instructional staff	236,372	237,555	232,165	5,390
General administration	545,695	515,506	523,836	(8,330)
School administration	913,259	911,389	899,031	12,358
Business	166,927	168,927	243,658	(74,731)
Operations and maintenance	1,785,713	1,774,416	1,753,874	20,542
Pupil transportation services	944,396	1,036,397	1,027,822	8,575
Central	269,653	289,150	274,323	14,827
Other	-	3,550	190	3,360
Outgoing transfers and other transactions	690,757	655,500	541,428	114,072
Total expenditures	16,948,467	16,930,409	16,932,713	(2,304)
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(474,119)</u>	\$ <u>260,220</u>	\$ 561,217	\$ <u>300,997</u>
Fund balance at July 1, 2005			<u>2,442,681</u>	
Fund balance at June 30, 2006			<u>\$ 3,003,898</u>	

Whitehall District Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Community Education Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 871,000	\$ 1,111,724	\$ 1,152,799	\$ 41,075
State sources	689,207	701,650	707,718	6,068
Federal sources	<u>1,613,217</u>	<u>1,600,000</u>	<u>1,786,358</u>	<u>186,358</u>
Total revenues	3,173,424	3,413,374	3,646,875	233,501
EXPENDITURES				
Adult education and support	692,595	587,870	624,694	(36,824)
Community education and enrichment	240,200	299,876	303,914	(4,038)
Early childhood	1,707,914	1,848,383	1,887,932	(39,549)
Work force development	<u>691,360</u>	<u>826,760</u>	<u>879,562</u>	<u>(52,802)</u>
Total expenditures	<u>3,332,069</u>	<u>3,562,889</u>	<u>3,696,102</u>	<u>(133,213)</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(158,645)</u>	\$ <u>(149,515)</u>	(49,227)	\$ <u>100,288</u>
Fund balance at July 1, 2005			<u>461,221</u>	
Fund balance at June 30, 2006			\$ <u>411,994</u>	

OTHER SUPPLEMENTAL INFORMATION

Whitehall District Schools
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2006

	Total other governmental funds	School Service		Debt Service			
		Food Service	Athletics	1992	1997	2001	2005
ASSETS							
Cash and cash equivalents	\$ 855,418	\$ 48,273	\$ 7,827	\$ 43,986	\$ 139,675	\$ 266,534	\$ 349,123
Due from other governmental units	4,604	4,604	-	-	-	-	-
Due from other funds	73,466	-	-	7,995	6,163	31,967	27,341
Inventories	5,669	5,669	-	-	-	-	-
Total assets	<u>\$ 939,157</u>	<u>\$ 58,546</u>	<u>\$ 7,827</u>	<u>\$ 51,981</u>	<u>\$ 145,838</u>	<u>\$ 298,501</u>	<u>\$ 376,464</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 363	\$ 19	\$ 344	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	10,258	4,450	5,808	-	-	-	-
Due to other funds	2,711	2,089	-	127	252	204	39
Deferred revenue	3,397	3,397	-	-	-	-	-
Total liabilities	<u>16,729</u>	<u>9,955</u>	<u>6,152</u>	<u>127</u>	<u>252</u>	<u>204</u>	<u>39</u>
Fund balances							
Reserved							
Inventories	5,669	5,669	-	-	-	-	-
Debt service	872,162	-	-	51,854	145,586	298,297	376,425
Unreserved							
Undesignated	44,597	42,922	1,675	-	-	-	-
Total fund balances	<u>922,428</u>	<u>48,591</u>	<u>1,675</u>	<u>51,854</u>	<u>145,586</u>	<u>298,297</u>	<u>376,425</u>
Total liabilities and fund balances	<u>\$ 939,157</u>	<u>\$ 58,546</u>	<u>\$ 7,827</u>	<u>\$ 51,981</u>	<u>\$ 145,838</u>	<u>\$ 298,501</u>	<u>\$ 376,464</u>

Whitehall District Schools
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	School Sservice		Debt Service			
		Food Service	Athletics	1992	1997	2001	2005
REVENUES							
Local sources							
Property taxes	\$ 2,784,314	\$ -	\$ -	\$ 564,770	\$ 360,825	\$ 1,017,492	\$ 841,227
Investment earnings	35,479	-	-	4,356	6,638	15,967	8,518
Fees and charges	429,430	366,576	62,854	-	-	-	-
Other	4,949	438	4,511	-	-	-	-
Total local sources	3,254,172	367,014	67,365	569,126	367,463	1,033,459	849,745
State sources	44,359	44,359	-	-	-	-	-
Federal sources	315,543	315,543	-	-	-	-	-
Total revenues	3,614,074	726,916	67,365	569,126	367,463	1,033,459	849,745
EXPENDITURES							
Food service	713,751	713,751	-	-	-	-	-
Athletics	406,740	-	406,740	-	-	-	-
Debt service							
Principal	1,007,567	-	-	212,567	75,000	650,000	70,000
Interest and other charges	1,571,926	-	-	278,434	371,410	518,762	403,320
Bond issuance costs	199,517	-	-	-	-	-	199,517
Advance refunding escrow	382,000	-	-	-	-	382,000	-
Total expenditures	4,281,501	713,751	406,740	491,001	446,410	1,550,762	672,837
Excess (deficiency) of revenues over (under) expenditures	(667,427)	13,165	(339,375)	78,125	(78,947)	(517,303)	176,908
OTHER FINANCING SOURCES (USES)							
Loan proceeds	321,103	-	-	-	66,953	254,150	-
Proceeds of refunding bonds	16,955,000	-	-	-	-	-	16,955,000
Premium proceeds of refunding bonds	80,317	-	-	-	-	-	80,317
Transfers in	337,197	-	337,197	-	-	-	-
Payment to refunded bond escrow agent	(16,835,800)	-	-	-	-	-	(16,835,800)
Total other financing sources (uses)	857,817	-	337,197	-	66,953	254,150	199,517
Net change in fund balances	190,390	13,165	(2,178)	78,125	(11,994)	(263,153)	376,425
Fund balances at July 1, 2005	732,038	35,426	3,853	(26,271)	157,580	561,450	-
Fund balances at June 30, 2006	\$ 922,428	\$ 48,591	\$ 1,675	\$ 51,854	\$ 145,586	\$ 298,297	\$ 376,425

Whitehall District Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2006

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FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 26, 2006

Board of Education
Whitehall District Schools
Whitehall, Michigan

We have audited the financial statements of Whitehall District Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated October 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Whitehall District Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Whitehall District Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as Findings 1 and 2 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Whitehall District Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 26, 2006

Board of Education
Whitehall District Schools
Whitehall, Michigan

Compliance

We have audited the compliance of Whitehall District Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Whitehall District Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Whitehall District Schools' management. Our responsibility is to express an opinion on Whitehall District Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Whitehall District Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Whitehall District Schools' compliance with those requirements.

In our opinion, Whitehall District Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Whitehall District Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Whitehall District Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
October 26, 2006
Page 2

Internal Control Over Compliance—Continued

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Whitehall District Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated October 26, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Adjustments	Notes
					Prior year	Current year	Total			
U.S. Department of Education										
Passed through Michigan										
Department of Education:										
Title I Part A	84.010									
0515300405		\$ 273,318	\$ 81,875	\$ 100,546	\$ 254,647	\$ 18,671	\$ 273,318	\$ -	\$ -	
0615300506		275,045	-	76,984	-	263,429	263,429	186,445	-	
		548,363	81,875	177,530	254,647	282,100	536,747	186,445	-	
Title I Part D	84.013									
0617000506		53,453	-	-	-	53,453	53,453	53,453	-	
Even Start	84.213									
050390D0522CES		225,000	97,746	97,746	225,000	-	225,000	-	-	
Title V LEA Allocation	84.298									
0502500405		1,346	-	1,346	1,346	-	1,346	-	1,346	3
0602500506		915	-	915	-	915	915	-	-	
		2,261	-	2,261	1,346	915	2,261	-	1,346	
Technology Literacy Challenge Grants	84.318									
0542900405		6,946	6,946	6,946	6,946	-	6,946	-	-	
0642900506		5,131	-	2,795	-	4,876	4,876	2,081	-	
		12,077	6,946	9,741	6,946	4,876	11,822	2,081	-	
Improving Teacher Quality	84.367									
0505200405		89,185	11,580	11,580	89,185	-	89,185	-	-	
0605200506		89,540	-	26,631	-	89,540	89,540	62,909	-	
		178,725	11,580	38,211	89,185	89,540	178,725	62,909	-	
Total passed through Michigan Department of Education		1,019,879	198,147	325,489	577,124	430,884	1,008,008	304,888	1,346	
Passed through Muskegon Area										
Intermediate School District:										
I.D.E.A 101-476	84.027									
0456		129,466	-	-	-	122,855	122,855	122,855	-	
Adult Education	84.002									
610586		22,094	-	19,800	-	22,094	22,094	2,294	-	
Emergency Impact Aid	84.186									
Hurricane Katrina Grant		444	-	-	-	444	444	444	-	
Drug Free Schools	84.186									
0628600506		9,415	-	9,415	-	9,415	9,415	-	-	
Total passed through Muskegon Area Intermediate School District		161,419	-	29,215	-	154,808	154,808	125,593	-	
Total U.S. Department of Education		1,181,298	198,147	354,704	577,124	585,692	1,162,816	430,481	1,346	

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Adjustments	Notes
					Prior year	Current year	Total			
<i>U.S. Department of Agriculture</i>										
Passed through Michigan Department of Education:										
National School Lunch and Breakfast										
Entitlement commodities	10.550	\$ 23,602	\$ -	\$ 23,602	\$ -	\$ 23,602	\$ 23,602	\$ -	\$ -	
Bonus commodities		3,715	-	3,715	-	3,715	3,715	-	-	
		27,317	-	27,317	-	27,317	27,317	-	-	
Child Nutrition Cluster										
051970 Breakfast	10.553	45,217	-	4,477	40,740	4,477	45,217	-	-	
061970 Breakfast		44,011	-	44,011	-	44,011	44,011	-	-	
		89,228	-	48,488	40,740	48,488	89,228	-	-	
051950 Free and reduced	10.555	41,796	-	5,203	36,593	5,203	41,796	-	-	
061950 Lunches		41,855	-	41,855	-	41,855	41,855	-	-	
051960 Free and reduced		159,043	-	20,065	138,978	20,065	159,043	-	-	
061960 Free and reduced		172,616	-	172,616	-	172,616	172,616	-	-	
		415,310	-	239,739	175,571	239,739	415,310	-	-	
051920 Child Care Food	10.558	7,500	-	815	6,685	815	7,500	-	-	
061920 Child Care Food		7,457	-	7,457	-	7,457	7,457	-	-	4
		14,957	-	8,272	6,685	8,272	14,957	-	-	
Total Child Nutrition Cluster		519,495	-	296,499	222,996	296,499	519,495	-	-	
Total U.S. Department of Agriculture		546,812	-	323,816	222,996	323,816	546,812	-	-	
<i>U.S. Department of Health and Human Services</i>										
Passed through County of Muskegon:										
TANF	93.558									
04-05 Case Management		176,408	28,040	24,160	176,408	-	176,408	-	(3,880)	5
04-05 Support Services		160,357	30,460	31,218	160,357	-	160,357	-	758	5
05-06 Case Management		156,113	-	133,465	-	156,113	156,113	22,648	-	
05-06 Support Services		125,131	-	98,682	-	125,101	125,101	26,419	-	
Total passed through County of Muskegon		618,009	58,500	287,525	336,765	281,214	617,979	49,067	(3,122)	
Passed through Muskegon Area Intermediate School District:										
Head Start	93.600									
05CH8258/05		827,605	173,945	516,344	485,206	342,399	827,605	-	-	
05CH8258/06		796,833	-	285,248	-	464,180	464,180	178,932	-	
		1,624,438	173,945	801,592	485,206	806,579	1,291,785	178,932	-	
Medical Assistance Program Title XIX	93.778									
Transportation & Outreach		6,776	-	6,776	-	6,776	6,776	-	-	
Total passed through Muskegon Area Intermediate School District		1,631,214	173,945	808,368	485,206	813,355	1,298,561	178,932	-	
Total U.S. Department of Health and Human Services		2,249,223	232,445	1,095,893	821,971	1,094,569	1,916,540	227,999	(3,122)	

Whitehall District Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2005	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2006	Adjustments	Notes
					Prior year	Current year	Total			
<i>U.S. Department of Labor</i>										
Passed through County of Muskegon:										
Wagner Peyser	17.207									
403939/WP/04-05		\$ 64,109	\$ 17,592	\$ 18,325	\$ 64,109	\$ -	\$ 64,109	\$ -	\$ 733	5
403939/WP/05-06			-	32,141	-	37,059	37,059	4,918	-	
		<u>64,109</u>	<u>17,592</u>	<u>50,466</u>	<u>64,109</u>	<u>37,059</u>	<u>101,168</u>	<u>4,918</u>	<u>733</u>	
Workforce Investment Act Cluster										
Adult Program	17.258									
403939/WR-05		277,306	139,015	59,001	277,306	-	277,306	80,014	-	
403939/WIA-04/05		404,071	-	350,006	-	404,071	404,071	54,065	-	
		<u>681,377</u>	<u>139,015</u>	<u>409,007</u>	<u>277,306</u>	<u>404,071</u>	<u>681,377</u>	<u>134,079</u>	<u>-</u>	
Youth Activities	17.259									
403939/WR-05		90,102	60,259	80,570	90,102	-	90,102	-	20,311	5
403939/WIA-04/05		30,363	-	26,512	-	30,363	30,363	3,851	-	
		<u>120,465</u>	<u>60,259</u>	<u>107,082</u>	<u>90,102</u>	<u>30,363</u>	<u>120,465</u>	<u>3,851</u>	<u>20,311</u>	
Dislocated Workers	17.260									
403939/WR-05		87,235	8,569	63,147	87,235	-	87,235	-	54,578	5
403939/WIA-04/05		68,925	-	53,334	-	68,925	68,925	15,591	-	
		<u>156,160</u>	<u>8,569</u>	<u>116,481</u>	<u>87,235</u>	<u>68,925</u>	<u>156,160</u>	<u>15,591</u>	<u>54,578</u>	
Total WIA Cluster		<u>958,002</u>	<u>207,843</u>	<u>632,570</u>	<u>454,643</u>	<u>503,359</u>	<u>958,002</u>	<u>153,521</u>	<u>74,889</u>	
Total passed through County of Muskegon and U.S. Department of Labor		<u>1,022,111</u>	<u>225,435</u>	<u>683,036</u>	<u>518,752</u>	<u>540,418</u>	<u>1,059,170</u>	<u>158,439</u>	<u>75,622</u>	
Total Federal Financial Assistance		<u>\$ 4,999,444</u>	<u>\$ 656,027</u>	<u>\$ 2,457,449</u>	<u>\$ 2,140,843</u>	<u>\$ 2,544,495</u>	<u>\$ 4,685,338</u>	<u>\$ 816,919</u>	<u>\$ 73,846</u>	

Whitehall District Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2006

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Accrued revenue as of July 1, 2005 was understated by \$1,346.
4. Revenue on books as of June 30, 2006 is lower than Form R7120 by \$104 due to rounding and other insignificant amounts, for which School District personnel elected not to adjust School District accounting records.
5. As a subgrantee, the School District operates certain programs on a units of service basis. As of each fiscal year ending June 30, the School District reports associated grants receivable based on its best estimates. For this program, the School District may receive additional allocations of overperformance payments from its granting agency, County of Muskegon, upon final closure of the program by the County. The County's final program closure does not occur until after the School District's annual financial statements issuance date. The amounts appearing in the "Adjustments" column represent the amount of additional overperformance payments associated with the School District's year ended June 30, 2005, which were not included in the School District's receivables as of June 30, 2005.
6. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2006

Governmental Funds financial statements

General Fund	\$ 570,374	
Community Education Fund	1,786,358	
Other governmental funds (includes Food Service Fund)	<u>315,543</u>	\$ 2,672,275

Revenue on books as of June, 30 2006 is lower than Form R7120	104
Other timing differences in recognition of revenue	(127,882)
Rounding adjustments	<u>(2)</u>
Expenditures per single audit report	
Schedule of Expenditures of Federal Awards	<u>\$ 2,544,495</u>

Whitehall District Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Whitehall District Schools.
2. *Two (2)* reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These reportable conditions are not reported as material weaknesses.
3. *No* instances of noncompliance material to the financial statements of Whitehall District Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Whitehall District Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Health and Human Services</i> Head Start	93.600
<i>U.S. Department of Labor</i> Workforce Investment Act Cluster	17.258, 17.259 and 17.260

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Whitehall District Schools was determined to be a low-risk auditee.

Whitehall District Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 1: Coding of Transactions Procedures

Condition: We noted numerous transactions were recorded in general ledger accounts not consistent with the State of Michigan standard chart of accounts.

Effect: In the absence of corrections, transactions could be recorded inconsistent with State of Michigan standard chart of accounts.

Recommendation: Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.

Questioned Costs: None

School District Response: The district has sent three additional staff members to state sponsored training on the 1022 manual. Both accounts payable clerks were trained and have been given the responsibility of reviewing account numbers prior to entering accounts payable into the system. Further, prior to checks being run, the Assistant Superintendent is reviewing a report listing all checks. Account numbers are being reviewed and payments are being randomly selected for review. All building secretaries are being given internal training on the use of the 1022 manual to ensure that they are familiar with the state's coding system. All staff have been advised that they should request the creation of new accounts if an expenditure does not fall into a category that exists.

Fiscal 2006 Finding No. 2: Student Activity Fund Cash Procedures

Condition: We noted 9 of 32 cash disbursements and 11 of 15 cash receipts tested did not have adequate supporting documentation for such transactions.

Effect: Errors in the recording of student activity fund cash transactions or the misappropriation of funds could occur and not be detected.

Recommendation: Student activity fund transactions need proper documentation to support each transaction.

Questioned Costs: None

School District Response: The accounts payable clerk has been advised that all procedures previously used for General Fund transactions, specifically supporting documentation required, must be used for activity accounts. Further, the Assistant Superintendent is reviewing requests randomly prior to checks being processed and is reviewing all expenditures from activity accounts at month end.

Whitehall District Schools
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended June 30, 2006

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

COMPLIANCE

NONE

REPORTABLE CONDITIONS

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 26, 2006

Michigan Department of Education
Lansing, Michigan

Whitehall District Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated November 7, 2005.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Coding of Transactions Procedures

Condition: We noted numerous transactions were recorded in general ledger accounts not consistent with the State of Michigan standard chart of accounts.

Recommendation: Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.

Current Status: See Fiscal 2006 Finding No. 1 for similar finding noted during the single audit for the year ended June 20, 2006.

Fiscal 2005 Finding No. 2: Payroll Documentation Procedures

Condition: Pay rate changes and timesheet approval are not supported with documentation.

Recommendation: Pay rate changes and timesheet approval should be documented.

Current Status: During the year ended June 30, 2006, this recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2005 Finding No. 3: Qualified Bond Expenditures

Condition: During our detailed tests of construction bond expenditures, we noted a number of expenditures were not in compliance with State of Michigan Section 380.1351(a).

Recommendation: Construction bond expenditures should be reviewed carefully to ensure compliance with Section 380.1351(a).

Current Status: During the year ended June 30, 2006, this recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

Fiscal 2005 Finding No. 4: Athletic Event Cash Receipt Procedures

Condition: During our procedural reviews, we noted that the number of individuals admitted to athletic events is not reconciled with athletic event cash receipts.

Recommendation: Control procedures surrounding athletic event gate receipts should be enhanced.

Current Status: During the year ended June 30, 2006, this recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Education

Fiscal 2005 Finding No. 5: Participation of Private School Children

Even Start: 84.213

Award Number: 050390D0522CES

Award Year End: June 30, 2005

Condition: During our compliance tests for Special Tests and Provisions of Participation of Private School Children, we noted there was no consultation with private school officials to determine if there is a need to provide educational services to eligible private school children.

Recommendation: The School District should conduct timely consultation with private school officials to determine educational services to eligible private school children, to make sure the planned services are provided and to determine whether the required amount of funding was used.

Current Status: During the year ended June 30, 2006, this recommendation was implemented. *No* similar finding was noted during the single audit for the year ended June 30, 2006.

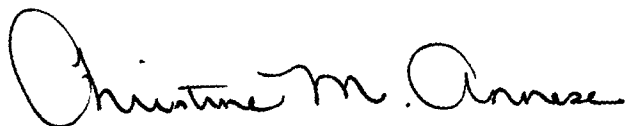
Michigan Department of Education
October 26, 2006
Page 3

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to the major federal award programs.

Sincerely,

A handwritten signature in black ink that reads "Christine M. Annese". The signature is written in a cursive style with a large initial "C" and a distinct "M" and "A".

Christine M. Annese
Assistant Superintendent

CORRECTIVE ACTION PLAN

October 26, 2006

Michigan Department of Education
Lansing, Michigan

Whitehall District Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 1: Coding of Transactions

Recommendation: Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.

Action Taken: The district has sent three additional staff members to state sponsored training on the 1022 manual. Both accounts payable clerks were trained and have been given the responsibility of reviewing account numbers prior to entering accounts payable into the system. Further, prior to checks being run, the Assistant Superintendent is reviewing a report listing all checks. Account numbers are being reviewed and payments are being randomly selected for review. All building secretaries are being given internal training on the use of the 1022 manual to ensure that they are familiar with the state's coding system. All staff have been advised that they should request the creation of new accounts if an expenditure does not fall into a category that exists.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS—Continued

Fiscal 2006 Finding No. 2: Student Activity Fund Cash Procedures

Recommendation: Student activity fund transactions need proper documentation to support each transaction.

Action Taken: The accounts payable clerk has been advised that all procedures previously used for General Fund transactions, specifically supporting documentation required, must be used for activity accounts. Further, the Assistant Superintendent is reviewing requests randomly prior to checks being processed and is reviewing all expenditures from activity accounts at month end.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

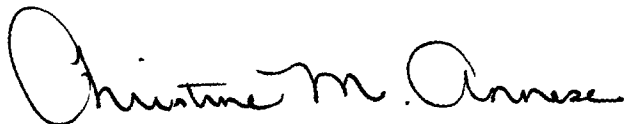
There were *no* compliance findings reported in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Christine M. Annese at (231) 893-1000.

Sincerely,

A handwritten signature in black ink that reads "Christine M. Annese". The signature is written in a cursive, flowing style.

Christine M. Annese
Assistant Superintendent

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2006

Board of Education
Whitehall District Schools
Whitehall, Michigan

In planning and performing our audit of the financial statements of Whitehall District Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Whitehall District Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

Recommendation 1: Student activity fund transactions need proper documentation to support each transaction.

During our testing of student activity funds, we noted 9 of 32 cash disbursements and 11 of 15 cash receipts tested did not have adequate supporting documentation for the transactions. The School District is responsible as fiduciary for the accounting and maintenance of assets of the various student activity funds.

The acquisition and maintenance of adequate documentation would provide support for the business purpose of each disbursement transaction, proper approval of disbursements, and substantiate the amounts being recorded as cash receipts.

We consider the following recommendation from our letter dated November 7, 2005 to be still applicable.

Recommendation 1: Transactions should be coded to general ledger accounts in accordance with the State of Michigan standard chart of accounts.